COCHRANE DUNLOP HARDWARE LIMITED

ANNUAL REPORT 1974

COCHRANE-DUNLOP HARDWARE, LIMITED

Directors

E. A. Bird, Toronto, Ontario

A. Gordon Cardy, Toronto, Ontario

G. R. Chater, Toronto, Ontario

F. Cochrane, Toronto, Ontario

D. Higgins, Toronto, Ontario

F. S. Martin, Ottawa, Ontario

F. F. Todd, Oakville, Ontario

Executive Offices

160 Bloor Street East, Toronto, Ontario

Officers

F. Cochrane, *President*

D. Higgins, *Executive Vice-President and General Manager*

R. L. T. Baillie, *Vice-President—Finance*

Counsel

Shibley, Righton & McCutcheon

Auditors

Clarkson, Gordon & Co.

Transfer Agent and Registrar

The Canada Trust Company—Toronto

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The consolidated financial statements of Cochrane-Dunlop Hardware, Limited and subsidiary companies for the year ended December 31, 1974, together with the report of the Auditors are submitted on behalf of your Board of Directors.

The Canadian economy in 1974 presented a number of factors of importance to operating results.

A high level of production in the basic industries which are served by your company's industrial supply branches, and in general a buoyant consumer market for dealer items began in the last quarter of 1973 and continued throughout the 1974 year. This was reflected in major growth in sales in the year; an improvement in volume most noticeable in the first three quarters of the year with a slower, though still significant, rate of increase in the fourth quarter of 1974.

Considerable attention was devoted to maintaining service during 1974 in the face of material shortages in a number of basic commodities. Lead times lengthened creating uncertainties in purchasing policies; inventory levels were raised to accommodate both sourcing problems and higher sales volumes.

Inflation was a basic factor in operations in 1974, as it was in 1973, however, while it did contribute to the improved sales volume, the importance of the real growth in sales should not be minimized.

A more significant effect of inflation is the need for an increase in the level of return on shareholders' equity to offset the erosion in real values of shareholders' capital and retained earnings and to maintain and improve the working capital of the business in terms of real values. Your company must invest in inventory and accounts receivable at increasingly higher unit prices in terms of the dollar. Funds to support this new investment must be obtained, in part, through retention of earnings and, in 1974, the increase in working capital from this source was the greatest in the company's history. This was made possible through an increase in the return on shareholders' equity consistent with the pattern of improvement of the past few years.

Recourse to higher levels of bank borrowing has also been made to finance growth and, in 1974, increased borrowing at historically high rates of interest has been a significant cost factor. Although the interest rate for borrowed funds is now lower, interest will continue to be a major item of cost as an increased borrowing level is anticipated for 1975.

SALES

Sales, in 1974, at $58 million were 28.6% above sales for 1973. The division showing greatest growth was the mining customer group reflecting increasing activity in 1974 in the mining locations served by our branches. Dealer supply sales were strong, supported by a buoyant consumer market in the early part of 1974. Building trade sales, although strong, improved at a slower rate, a result of the contraction in volume of housing starts and some slackening in new construction projects over the year. Growth in industrial supply volume, although satisfactory, was affected by the dislocations arising from the separation to new premises of the industrial supply portion of the

Toronto branch operation which now constitutes the core of the dealer supply division.

In the overall 1974 picture, the ability of all branches and divisions to meet customer demand in an extremely difficult and tight supply market and to achieve improved physical and dollar sales volume reflects a high level of competence and ability on the part of all company personnel.

INCOME

Net income for the year amounted to $1,195 thousand compared with $793 thousand in 1973, an increase in the year of 50.6% and a record annual income result. Several factors underlying this result should be noted.

The improved sales results have already been outlined. Also of major significance is the ability to maintain profit margins in a market of heavy demand and tight supply; margins were maintained and improved in all locations. It should be noted that both 1973 and 1974 earnings include a higher than normal effect of inflation trends; as a result, a major part of earnings must be reinvested in replacement inventory at a higher cost.

Interest on bank indebtedness increased materially. Increased borrowing to finance increased accounts receivable and inventories coupled with historically high prime interest rates resulted in financing costs which were almost triple the 1973 levels.

Your company continues to incur income taxes at significantly higher rates than companies involved in "manufacturing and processing" in Canada. The Federal budget in the fall of 1974 accentuated this problem through the imposition of a 10% income tax surtax. The effect on the company of the surtax alone was $65,000 in 1974.

FIXED ASSETS

Significant items in the total expenditures on fixed assets of $469,400 in 1974 include:—

1. The cost of an electronic order entry system which has been used by our dealer supply sales force during a major portion of the year and which is being extended for use by selected dealers. This system has made significant improvements in order flow and recording and in ensuring prompt delivery schedules.

2. The cost of outfitting the new industrial supply warehouse in the Toronto area. The move of industrial supply activity out of the continuing dealer supply branch in Toronto into a new separately stocked and administered branch location was made in May and June, 1974. This branch is now in operation and its progress as a major, separate unit is being developed.

3. The cost of equipping an enlarged retail outlet in Sudbury. This store replaced a smaller store in the same area and is operating most satisfactorily. The new store will also serve to replace in part the business of the main store in downtown Sudbury; this store was demolished early in 1975. This was the location of the first place of business of your company and its necessary termination was implemented with a great deal of regret. New moves in the area are expected to more than offset the impact of this change.

Other fixed asset expenditures represent regular equipment replacement and facility upgrading.

DIVIDENDS

The regular quarterly dividend of 20¢ per share (80¢ per annum) was approved for payment to Class 'A' shareholders in 1974. The regular quarterly dividend of 20¢ per share payable to Common shareholders was increased to 25¢ with the quarterly payment made on August 15, 1974 and this rate was continued. In addition, a special extra dividend of 35¢ per share was declared in 1974 for payment in February, 1975. The total dividend declaration in 1974 was $1.30 per share, an increase from 80¢ in 1973. All dividends on Common shares were paid out of tax paid undistributed surplus and accordingly were paid on a "tax deferred" basis under Canadian Income Tax procedures, whereas the Class 'A' dividends were paid on a regular taxable basis.

EXPECTATIONS FOR 1975

Given the uncertainties of the present economic outlook, at both the industrial and the consumer level, it is difficult to anticipate the result in terms of your company's operations for 1975. Inflation and cost increases appear to be continuing, possibly at a lower rate than in 1974, but consumer optimism is unsettled and consumer saving at the expense of purchase of durables is expected. While business capital expenditures are expected to maintain their momentum, the large number of labour contracts expiring in 1975 can be expected to give rise to uncertainties in industrial supply volume. Residential construction and inventory investment are expected to be weak areas in the first half of the year and this can be substantiated by early 1975 sales volume trends which, while showing an improvement over 1974 results, have not yet achieved targeted levels.

We will continue to maintain a close control over these situations in order that we can react quickly and with confidence to opportunities as they develop.

On behalf of the Board.

Toronto, Ontario
April 14, 1975

F. COCHRANE
President

STATISTICAL SUMMARY

(figures in thousands except ratios, shares, and amounts per share)

FOR THE YEAR	1974	1973	1972	1971	1970	1969	1968	1967	1966
Sales - - - - - - -	$58,025	$45,115	$39,294	$41,815	$41,516	$35,751	$35,662	$33,112	$29,379
Depreciation - - - -	249	179	188	202	202	215	218	182	175
Interest on bank indebtedness	383	132	65	88	119	141	81	35	49
Income taxes - - - -	1,330	820	640	630	550	385	570	487	336
Net income - - - -	1,195	793	675	613*	489	360*	519	457	333
% to sales - - - -	2.1%	1.8%	1.7%	1.5%*	1.2%	1.0%*	1.4%	1.4%	1.1%
per common share - -	8.26	5.45	4.62	4.19*	3.32	2.42*	3.53	3.10	2.24
Dividends—total - - -	200	128	128	128	128	128	128	128	128
per share—Class A -	.80	.80	.80	.80	.80	.80	.80	.80	.80
—Common -	1.30	.80	.80	.80	.80	.80	.80	.80	.80
Expenditures on fixed assets	469	564	88	202	89	151	492	357	83
Increase in working capital	742	260	626	503	473	365	117	154	258
AT YEAR END									
Working capital - - -	9,115	8,373	8,114	7,488	6,985	6,512	6,147	6,031	5,877
Shareholders' equity - -	11,956	10,993	10,348	9,822	9,319	8,958	8,657	8,267	7,404
Shares outstanding									
—Class A - - - - -	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092	17,092
—Common - - - - -	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018	143,018

*Before adding Extraordinary Items of: 1971—$25,000 or $0.18 per common share

1969—$68,904 or $0.48 per common share

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CONSOLIDATE

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ASSETS

	1974	*1973*
Current assets:		
Cash	$ 9,330	*$ 9,305*
Accounts receivable	7,413,847	*6,802,677*
Merchandise inventory (note 1(b))	10,899,296	*8,015,729*
Prepaid expenses and other assets	571,561	*322,315*
	18,894,034	*15,150,026*
Fixed assets, at cost (note 1(c)):		
Buildings and equipment	4,051,083	*3,989,115*
Furniture and fixtures	1,585,558	*1,223,642*
Automotive equipment	168,689	*134,037*
	5,805,330	*5,346,794*
Less accumulated depreciation	3,852,034	*3,614,107*
	1,953,296	*1,732,687*
Land	887,189	*887,189*
	2,840,485	*2,619,876*
	$21,734,519	*$17,769,902*

On behalf of the Board:

F. COCHRANE, *Director*

F. S. MARTIN, *Director*

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AUDITO

To the Shareholders of
Cochrane-Dunlop Hardware, Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Hardware, Limited and subsi
financial position for the year then ended. Our examination included a general review of the accounting proced

In our opinion these consolidated financial statements present fairly the financial position of the compar
ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of

Toronto, Canada,
March 31, 1975.

RDWARE, LIMITED

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LANCE SHEET

, 1974

LIABILITIES

	1974	1973
Current liabilities:		
Bank indebtedness	$ 4,107,584	$ 1,965,666
Accounts payable and accrued charges	4,628,286	4,111,181
Income and other taxes payable	953,517	667,833
Dividends payable	89,229	32,022
	9,778,616	6,776,702
Shareholders' equity:		
Share capital—		
Authorized:		
~~565,420 non-cumulative preference shares of par value 20¢ each, redeemable at par~~		
~~17,092 Class "A" shares of no par value (note 3)~~		
143,018 common shares of no par value		
~~Issued and fully paid:~~		
~~17,092 Class "A" shares~~ 143,018 common shares	533,700	533,700
Retained earnings	11,422,203	10,459,500
	11,955,903	10,993,200
	$21,734,519	$17,769,902

notes)

REPORT

nies as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in n tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

ember 31, 1974 and the results of their operations and the changes in their financial position for the year then g year.

CLARKSON, GORDON & CO.
Chartered Accountants

COCHRANE-DUNLOP HARDWARE, LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	*1973*
Sales	$58,025,132	*$45,114,966*
Costs and expenses, exclusive of the following items:	54,631,952	*42,999,160*
Depreciation (note 1(c))	248,791	*178,871*
Remuneration of directors and senior officers	236,200	*192,024*
Interest on bank indebtedness	383,188	*131,638*
	55,500,131	*43,501,693*
Net income before income taxes	2,525,001	*1,613,273*
Income taxes	1,330,000	*820,000*
Net income for the year	$ 1,195,001	*$ 793,273*
Net income per common share for the year	$8.26	*$5.45*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	*1973*
Balance, beginning of year	$10,459,500	*$ 9,814,414*
Net income for the year	1,195,001	*793,273*
	11,654,501	*10,607,687*
Deduct:		
Dividends—common shares	185,924	*114,414*
—Class "A" shares	13,674	*13,674*
	199,598	*128,088*
Tax paid on undistributed income	32,700	*20,099*
	232,298	*148,187*
Balance, end of year	$11,422,203	*$10,459,500*

(See accompanying notes)

COCHRANE-DUNLOP HARDWARE, LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	*1973*
Funds were obtained from:		
Net income for the year	$ 1,195,001	*$ 793,273*
Depreciation, an item not requiring a current outlay of funds	248,791	*178,871*
	1,443,792	*972,144*
Funds were applied to:		
Expenditures on fixed assets	469,400	*564,235*
Dividends	199,598	*128,088*
Tax paid on undistributed income	32,700	*20,099*
	701,698	*712,422*
Increase in working capital	742,094	*259,722*
Working capital, beginning of year	8,373,324	*8,113,602*
Working capital, end of year	$ 9,115,418	*$ 8,373,324*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. Summary of significant accounting policies

(a) Basis of consolidation—

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and include the earnings of the subsidiaries since acquisition.

(b) Inventories—

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

(c) Depreciation—

The Company and its subsidiaries provide for depreciation on fixed assets on the reducing balance method. The rates for depreciation are:

	Rate
Buildings and equipment	5% and 10%
Furniture and fixtures	20%
Automotive equipment	30%

2. Lease commitments

The Company and its subsidiaries are committed to annual rental payments of approximately $191,000 on leases expiring in the years 1976 to 1992.

3. Capital stock

The non-voting class "A" shares are entitled to a fixed cumulative dividend of 80¢ per share in priority to the common shares but to no further participation in annual dividends.

CORPORATE DIRECTORY

COCHRANE-DUNLOP HARDWARE, LIMITED

EXECUTIVE OFFICES:
160 BLOOR STREET EAST,
TORONTO, ONTARIO M4W 1C4.

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited
Cochrane-Dunlop Hardware—Quebec, Inc.
Cochrane-Dunlop Hardware—Manitoba Limited
Cochrane-Dunlop Hardware—Saskatchewan Limited
Dominion Hardware Stores Limited

Wholesale Branches

ONTARIO
Dryden—*908 Government Road, Dryden.*
Elliot Lake—*Timber Road, Elliot Lake.*
Little Current—*Vankoughnet Street, Little Current.*
North Bay—*881 Jet Avenue, North Bay.*
Sault Ste. Marie—*550 Second Line East, Sault Ste. Marie.*
Sudbury—*Douglas Street, Sudbury.*
Thunder Bay—*425 Eleventh Avenue, Thunder Bay.*
Toronto (Dealer Supply)—*1385 Bloor Street West, Toronto.*
Toronto (Industrial Supply)—*50 Woodbine Downs Boulevard, Rexdale.*
Wawa—*Algoma Ore Property, Wawa.*

QUEBEC
Val d'Or—*Harricana Street, Val d'Or.*

MANITOBA
Thompson—*Station Road, Thompson.*

SASKATCHEWAN
Esterhazy—*East Drive, Esterhazy.*
Saskatoon—*2525 Wentz Avenue, Saskatoon.*

Retail Branches

ONTARIO
Copper Cliff
Guelph
Hamilton
Lively
North Bay
Oakville
Sault Ste. Marie
Sudbury (2)

MANITOBA
Thompson